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EUR/RPE:AALBRECHT

USDA:GWHITE

S/S-O: P. SHANKLE

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TAGS: ETRD, EEC

SUBJECT: CHEESE AND COUNTERVAILING

SUMMARY: TREASURY AND STR REPS MET WITH DAIRY INDUSTRY AND CONGRESSIONAL REPS JANUARY 30 AND OUTLINED EC PROPOSALS PRESENTED TO US IN BRUSSELS. INDUSTRY AND CONGRESSIONAL REPS, WHILE CAUTIOUS, AGREED IDEA SHOULD BE PURSUED, BUT REQUESTED FURTHER DETAILS. TREASURY REMAINS UNDER VERY STRICT TIME CONSTRAINTS REGARDING COUNTERVAILING DUTIES ONCE RESTITUTIONS ARE RE-INSTITUTED. MISSION REQUESTED REVIEW UNDERSTANDING AND ADDITIONAL POINTS WITH COMMISSION: END SUMMARY.

1. USG OFFICIALS (SUCHMAN,TREASURY AND LANDE, STR) MET WITH REPS OF U.S. DAIRY INDUSTRY AND CONGRESSIONAL AIDES ON JANUARY 30 TO DISCUSS EC COMMISSION TENTATIVE PROPOSAL RE
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NEW SYSTEM FOR HANDLING EXPORTS OF CERTAIN CHEESES TO THE U.S. SUCHMAN STATED COMMISSION HAD PROVIDED U.S. REPS AT RECENT BRUSSELS MEETING WITH A GENERAL OUTLINE OF THE PROPOSED SYSTEM, EMPHASIZING THAT SPECIFICS WOULD NOT BE OBTAINABLE UNTIL IT HAD BEEN CONSIDERED AND APPROVED BY DAIRY MANAGEMENT COMMITTEE. IN KEEPING WITH SPIRIT OF TREASURY ASSISTANT SECRETARY MACDONALD'S LETTER TO SENATORS

MONDALE AND NELSON, DAIRY REPS WERE ASKED FOR THEIR INITIAL REACTION TO SUCH A PLAN AND TO HOLD CONFIDENTIAL.

2. LANDE PRESENTED THE OUTLINE OF THE PROPOSAL BROUGHT BACK FROM A POLICY MEETING WITH COMMISSION AS MODIFIED BY SUBSEQUENT MESSAGES FROM LENG OF COMMISSION'S MISSION IN WASHINGTON. SUBSTANCE OF PROPOSAL AS WE UNDERSTAND IT IS AS FOLLOWS:

A. EC WILL REDUCE RESTITUTIONS BY 30-50 PERCENT;
(WE REALIZE LOWER LIMIT MAY BE REDUCED DUE TO FALL IN VALUE OF DOLLAR. WE STRONGLY URGED LENG THAT UPPER LIMIT BE MAINTAINED. THESE PERCENTAGES WERE NOT DISCUSSED WITH INDUSTRY.)

B. EC WILL UNDERTAKE TO MAINTAIN GAP BETWEEN U.S. AND EC PRICES SUFFICIENT TO SUBSTANTIALLY RELIEVE PROBLEMS OF US PRODUCERS (E.G. PRICE FOR EC BLUE MOLD 45-55 CENTS PER POUND ABOVE U.S. PRICE). EC WOULD FOR TIME BEING KEEP OUT OF U.S. CHEDDAR MARKET BASED ON PRESENT PRICE GAP AND COMMITMENT TO REDUCE RESTITUTIONS.

C. EC WILL USE INTERNAL MECHANISMS SUCH AS WITHHOLDING PRODUCTS FROM MARKET AND LIMITING RESTITUTION TO AVOID AGGRESSIVE MARKETING SUCH AS EXCEEDING TRADITIONAL AMOUNTS.

D. COMMISSION WILL END PREFIXATION TO ALLOW MAINTENANCE OF PRICE GAP RELATIVE TO U.S. MARKET PRICES. (LENG TOLD GLITMAN, IN CONFIDENCE, RABOT INTENDED PROPOSE THIS TO MANAGEMENT GROUP.)

E. U.S. AND EC AGREE THEY WILL CONSULT IF DESPITE LIMITED OFFICIAL USE

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ABOVE EC CHEESES CREATE PROBLEMS (INCLUDING POSSIBILITY OF U.S. PUTTING ON QUOTAS) AND IF EC IS PLACED IN COMPETITIVE DIFFICULTY GIVEN THIRD COUNTRY COMPETITION.

F. U.S. AND EC ARE PREPARED MEET REQUIREMENTS OF TRADE ACT CONCERNING NEGOTIATIONS ON SUBSIDIES CVDS.

3. DAIRY REPS WERE PREDICTABLY SKEPTICAL OF THE EC PROPOSAL IN THE ABSENCE OF SPECIFICS. THEY AGREED THAT SUCH PROPOSAL MIGHT BE WORTHY OF SERIOUS CONSIDERATION BY THE INDUSTRY AFTER MORE INFORMATION WAS AVAILABLE AND ASKED THAT DOOR NOT BE CLOSED ON THIS PROPOSAL. SPECIFICALLY THEY REQUESTED CLARIFICATIONS ON THE FOLLOWING:

(A) THE EXTENT OF THE PRICE GAP FOR EACH CHEESE AND THE METHODS OF ESTABLISHING U.S. PRICE. THEY POINTED OUT

THAT THE NEW YORK WHOLESALE PRICE (AS QUOTED BY URNER-BARRY) COULD VARY CONSIDERABLY FROM THE GREEN BAY EXCHANGE.

(B) THE FORMULA TO BE USED AND HOW OFTEN AND BY HOW MUCH THE GAP WOULD BE ALLOWED TO FLUCTUATE.

(C) THE VOLUME BEING CONSIDERED FOR SHIPMENT. DAIRY REPS WERE INSISTENT THAT "TRADITIONAL QUANTITIES/AND "NON-AGGRESSIVE MARKETING" BE MORE PRECISELY DEFINED. (FOR EXAMPLE WOULD INCREASE IN EMMENTHALER SHIPMENTS FROM 3.4 MILLION POUNDS IN 1972 TO 20 MILLION POUNDS IN 1974 BE CONSIDERED "TRADITIONAL" AND "NON-AGGRESSIVE MARKETING"?) DAIRY REPS INDICATED THEY WOULD GIVE PARTICULAR ATTENTION TO COMMISSION ACTION ON EMMENTHALER.

(D) WHETHER THE CHEESES MENTIONED IN RECENT BRUSSELS DISCUSSIONS ARE ALL INCLUSIVE, OR IF THE NEW SYSTEM CONTEMPLATED EXTENSION TO OTHER CHEESES AND OTHER DAIRY PRODUCTS.

4. OTHER CONCERNS EXPRESSED WERE:

(A) WOULD SUCH AN AGREEMENT PROVIDE THE BASIS FOR LIMITED OFFICIAL USE

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RENEWED NEGOTIATIONS ON SECTION 22 QUOTA RESTRICTIONS. (THEY WERE INFORMED THAT THIS PROPOSAL WOULD BE CONSIDERED AS A COMPLETELY SEPARATE MATTER, BUT STILL REMAINED SKEPTICAL.)

(B) THE FACT THAT THE SUGGESTED RESTITUTION FOR CHEDDAR WOULD NOT ALLOW THE EC TO COMPETE IN THE U.S. MARKET SEEMED INCONSISTENT WITH DAIRY REPS UNDERSTANDING THAT EC IS PREPARING TO ACCELERATE CHEDDAR PRODUCTION.

5. USG AGENCY REPS STATED THEY WOULD ENDEAVOR TO OBTAIN SPECIFICS REQUESTED BY DAIRY REPS MENTIONED IN PARA. 3. WHILE U.S. DAIRY REACTION WAS BASICALLY AS EXPECTED, AN APPARENT WILLINGNESS WAS EXHIBITED ON THEIR PART NOT TO

FORECLOSE CONSIDERATION OF COMMISSION IDEA. WHILE OBVIOUSLY PUTTING IMMEDIATE NEEDS OF DAIRY INDUSTRY FIRST, THERE WAS AN APPRECIATION FOR THE NEED TO REACH SOME KIND OF AGREEMENT ON THE DAIRY ISSUE, IF POSSIBLE, SO AS TO AVOID AN EARLY CONFRONTATION WITH THE EC JUST AS MTNS GET UNDERWAY.

6. UNDERLYING TONE OF DAIRY REPS QUESTIONS SUGGEST THEIR ACCEPTANCE OF ANY PROPOSAL DEPENDS IN LARGE PART ON THE REASONABLENESS WITH WHICH IT IS PUT FORTH, I.E., THAT

PRICE GAP WOULD BE SET IN SUCH A WAY THAT QUANTITIES ELIGIBLE FOR RESTITUTION WOULD NOT ALLOW EC TO FLOOD U.S. MARKET AGGRESSIVELY WITH CURRENT SURPLUS IN EXCESS OF TRADITIONAL AMOUNTS.

7. NO FINAL POSITION CAN BE TAKEN BY USG AND DAIRY INDUSTRY UNTIL DETAILS OF SYSTEM ARE LAID OUT AND PROBABLY UNTIL SYSTEM IS IN EFFECT. EC MUST, THEREFORE, BE REASONABLE IN INITIAL STAGES. COMPROMISE CAN GO UP IN SMOKE IF EC INTRODUCES SYSTEM WITH SMALL PRICE GAPS OR MOVES EXCESSIVE AMOUNTS OF CHEESE AS A NEGOTIATING PLOY.

8. COMMENT: IT SHOULD BE EMPHASIZED TO COMMUNITY THAT THE USG CANNOT MAKE ANY COMMITMENT AT THIS TIME AS TO WHETHER, IN EVENT RESTITUTIONS ARE REINSTATED, LIMITED OFFICIAL USE

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SECRETARY OF TREASURY WILL, IN FACT, REFRAIN FROM IMPOSITION OF CVD'S. IF SECRETARY IS TO INVOKE SUCH A DETERMINATION EARLY ENOUGH (THAT IS BEFORE SUFFICIENT EXPERIENCE IS GAINED TO KNOW AFFECT OF EC SYSTEM ON U.S. MARKETS) TO PREVENT AT LEAST TEMPORARY IMPOSITION OF CVD'S, EC MUST BE READY TO SPELL OUT PRICE GAP RANGES IN ADVANCE IN SUFFICIENT DETAIL TO SATISFY U.S. INDUSTRY AND CONGRESSIONAL INTERESTS. IF SUFFICIENT TIME IS NOT ALLOWED IT IS UNLIKELY SECRETARY WOULD BE ABLE SUSPEND APPLICATION OF ADDITIONAL DUTIES.

9. ACTION REQUESTED: MISSION REQUESTED REVIEW U.S. UNDERSTANDING, PARA. 2, WITH COMMISSION AND OBTAIN CONFIRMATION. MISSION ALSO REQUESTED OBTAIN DETAILS, INCLUDING PRICE GAPS, AS SOON AS POSSIBLE IN ORDER ALLOW U.S. RESPOND TO INDUSTRY AND CONGRESSIONAL QUESTIONS AND TO ALLOW SECRETARY OF TREASURY TO MAKE DETERMINATION. WE WOULD HOPE RECEIVE THESE DETAILS AS FAR IN ADVANCE OF REINSTITUTION OF RESTITUTION PAYMENTS AS POSSIBLE. WE UNDERSTAND THAT MALVE TOLD GEORGE WHITE,

USDA, QUIETLY IN PARIS, THAT HE WOULD BE WILLING COME
TO WASHINGTON FOR FURTHER DISCUSSIONS IF NECESSARY AND WE
WOULD BE WILLING MEET WITH HIM HERE.

10. MISSION SHOULD EMPHASIZE TIGHT TIME RESTRAINTS
ON TREASURY IN THIS CASE. WITHIN TWO WEEKS OF
REINSTITUTION OF RESTITUTION PAYMENTS TREASURY MUST
DETERMINE WHETHER BOUNTY OR GRANT EXISTS. IDEALLY,
TREASURY WOULD AT SAME TIME MAKE DETERMINATION ON WHETHER
NEW SYSTEM MEETS REQUIREMENTS SET FORTH UNDER
SECTION 303(D)(2)(A)(B) AND (C) OF THE TRADE ACT OF 1974.
IN ORDER MAKE THIS DETERMINATION TREASURY MUST HAVE
DETAILS OF EC PLAN. KISSINGER

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